BANK OF CANADA
BANQUE DU CANADA

BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices

Results of the Summer 2007 Survey

Overview

- Firms remain positive about the economic outlook.
- Expectations regarding future sales growth are essentially unchanged from the last survey. Investment and employment intentions have declined from the very high levels reported in the previous survey, but continue to be solid.
- Pressures on production capacity have increased to a high level, and inflation expectations have moved up somewhat. Nevertheless, firms do not expect their own input and output prices to rise at a faster pace.

Business activity

- The balance of opinion regarding future sales growth is little changed from that in the last survey. A rebound in the balance of opinion for the goods-producing sector is offset by a decline for firms producing services.
- Investment intentions have declined but remain strong, particularly in Western Canada. The balance of opinion regarding hiring intentions has also declined, as has the number of firms reporting labour shortages.
- The rise in capacity pressures in this survey reflects a higher level of pressures among services-producing firms. From a regional perspective, pressures are well above average in Western Canada and are close to average for the rest of the country.

Prices and inflation

- Firms expect input prices to increase over the next 12 months at the same pace as in the last 12-month period. Output prices are expected to rise less rapidly over the next 12 months.
- Expectations for consumer price inflation have moved up, but they remain within the Bank's inflation-control range of 1 to 3 per cent.

The Business Outlook Survey summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Details of the survey and its content are discussed in the article, "The Bank of Canada's Business Outlook Survey," published in the spring 2004 issue of the Bank of Canada Review. The summer 2007 survey was conducted from 9 May to 8 June.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)

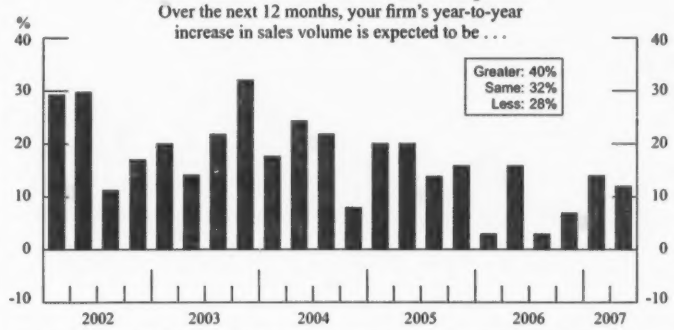
Outlook for Business Activity

The balance of opinion regarding future sales growth is little changed from that in the last survey and suggests that sales will increase at a faster pace over the next 12 months than they did over the past 12 months. The balance of opinion rose in Central and Eastern Canada, but fell in Western Canada, owing partly to a moderation in activities related to natural gas drilling.

Chart 1

Future Sales Growth: Balance of Opinion*

Over the next 12 months, your firm's year-to-year increase in sales volume is expected to be . . .



* Percentage of firms expecting faster growth minus percentage expecting slower growth

Investment intentions have declined, but are still solid. Intentions remain particularly high in Western Canada, where heightened capacity pressures intensify the desire to expand production capacity.

Chart 2

Investment in Machinery and Equipment: Balance of Opinion*

Over the next 12 months, your firm's investment spending on M&E is expected to be . . .

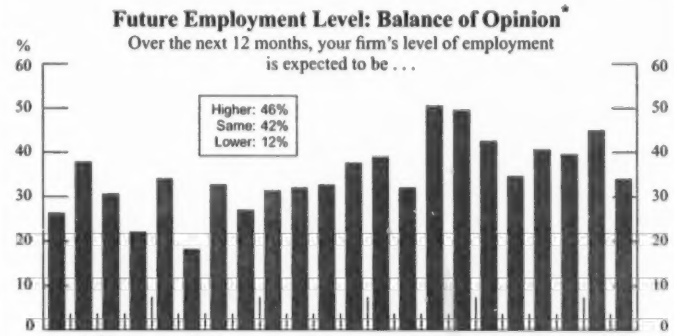
* Percentage of firms expecting greater investment minus the percentage expecting less investment

The balance of opinion regarding hiring intentions is below that of the past few surveys. Part of the decline from the last survey occurred among manufacturers, as well as among firms in Western Canada that are feeling an adverse impact from the cutback in natural gas drilling.

Chart 3

Future Employment Level: Balance of Opinion*

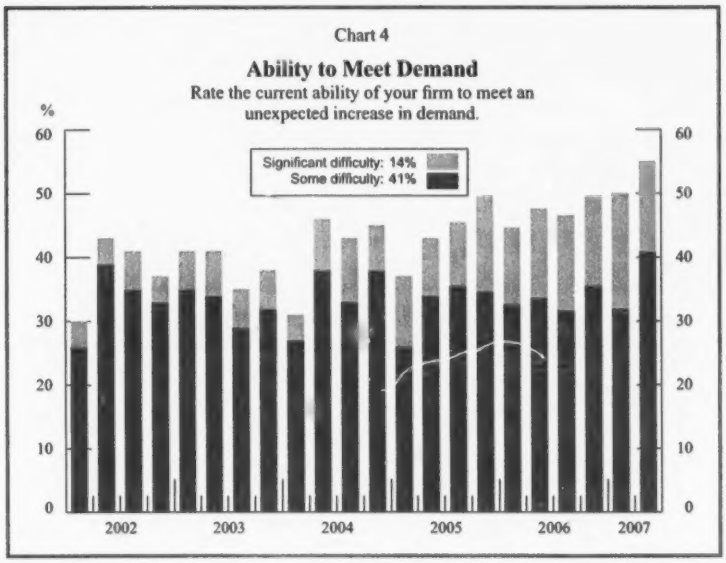
Over the next 12 months, your firm's level of employment is expected to be . . .



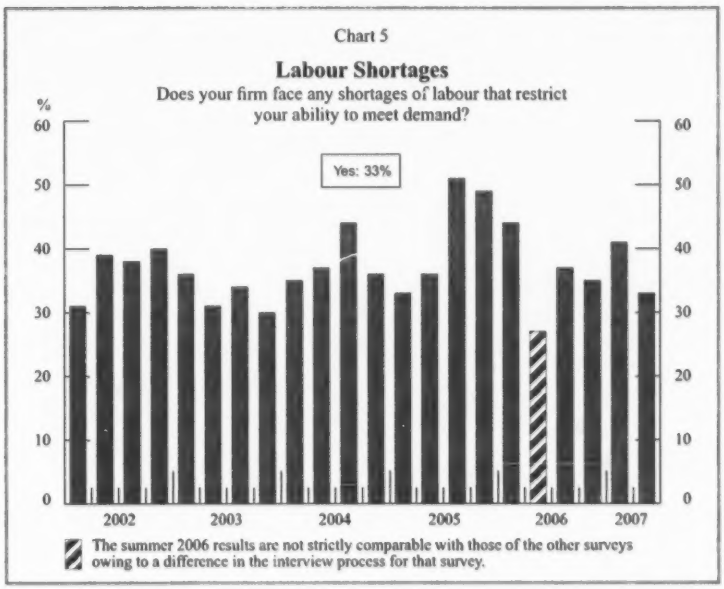
* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between +100 and -100. A strong positive balance of opinion suggests an acceleration in the trend growth rate over the previous period. Note: Percentages may not always add to 100 because of rounding.

Pressures on Production Capacity



The percentage of firms reporting difficulties in meeting an unexpected increase in demand has risen to the highest level since 2000Q3. Capacity pressures remain significantly greater among firms in Western Canada than in the rest of the country. Limits on physical capacity have risen, relative to those reported in previous surveys, whereas labour constraints have eased slightly.



The percentage of firms reporting labour shortages that restrict their ability to meet demand declined in this survey. While much of this decline is concentrated in the Prairies, labour shortages are still much more acute there and in British Columbia than in the rest of the country. Shortages are most prevalent in the construction, primary, and trade sectors.

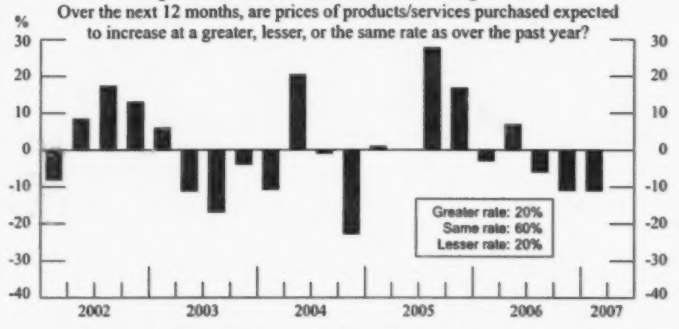
Outlook for Prices and Inflation

The balance of opinion regarding input price inflation is zero, indicating that firms expect their input prices to increase at the same rate over the next 12 months as they did over the previous 12-month period. The expected impact of rising energy prices is offset by that of slower growth in the prices of metals and other primary commodities, which are deemed by many firms to have peaked.

Chart 6

Input Price Inflation: Balance of Opinion*

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser, or the same rate as over the past year?



* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

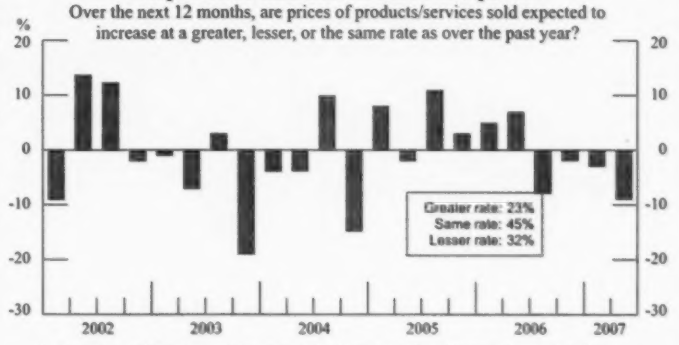
Note: The balance of opinion for 2007Q2 is zero.

On balance, businesses expect output prices to increase at a slower pace than over the past 12 months. This deceleration is led by the primary sector, where many firms expect that increases in their product prices over the next 12 months will not match the robust rates of recent years.

Chart 7

Output Price Inflation: Balance of Opinion*

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser, or the same rate as over the past year?



* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Inflation expectations have risen, as shown by an increase in the percentage of firms expecting inflation to be 2 per cent or higher over the next two years. Nevertheless, 84 per cent of firms (compared with 88 per cent in the previous survey) expect the rate of inflation, as measured by the total consumer price index, to fall within the Bank's inflation-control range of 1 to 3 per cent.

Chart 8

Inflation Expectations

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?